
From: Paul Morris [REDACTED]
Sent: 11/5/2015 9:14:24 PM
To: Daniel Sabba [REDACTED]; Vahe Stepanian [REDACTED]
CC: Stewart Oldfield [REDACTED]
Subject: RE: Changing DB's view on GBP, turning very bearish [C]

Thanks Daniel, let's try to catch up soon and if you could collaborate on future trade ideas before they go out would be great.

-----Original Message-----

From: Daniel Sabba
Sent: Thursday, November 05, 2015 01:25 PM Eastern Standard Time
To: 'jeffrey E.'
Cc: Paul Morris; Stewart Oldfield; Vahe Stepanian; Ariane Dwyer; 'Richard Kahn'
Subject: Changing DB's view on GBP, turning very bearish [C]

Classification: **Confidential**

Jeffrey – please see below.

From: George Saravelos
Sent: Thursday, November 05, 2015 11:27 AM
Cc: Oliver Harvey
Subject: Changing our view on GBP, turning very bearish

From Oliver Harvey:

Today's November BoE inflation report marked a fundamental departure from recent Bank of England communication on the prospects of policy tightening.

First, the Bank explicitly validated dovish market repricing after the September period of risk aversion. The 2-year-ahead CPI forecast was essentially unchanged from August at just above 2%, but was based on a market yield curve implying the first rate hike in Q1 2017. Second, the risk to this forecast was seen as 'to the downside.' Third, the Bank talked up the impact of sterling strength on the CPI over the whole course of the forecast horizon, based on new work by bank staff.

In this sense, the BoE has clearly followed the lead of the ECB and not the Fed by prioritizing a weak external environment over domestic developments, and expressing intolerance of further FX appreciation. This changes our long-standing bullish GBP call held since September 2014. **We take profit on our short EUR/GBP and long GBP/USD trade from the September Blueprint at a gain of 1.35%, and now see three reasons to turn outright bearish the pound:**

- 1) **Short-end rates now suggest GBP downside.** Reacting to today's report, short-end rates have shifted hikes back into 2017. GBP/USD has closely tracked the relative timing of UK vs. US rate hikes and this mechanically implies the cross below 1.50. As well as the short term reaction, though, rate support may be undermined more broadly.
- 2) **The window for policy exit may now close.** Absent a remarkable *volte-face*, the MPC has now relinquished its optionality for a hike in H1 next year. The problem is that it may be too late after that for exit. Fiscal tightening is set to pick-up sharply in 2016, with the UK undergoing the largest fiscal consolidation of any G10 economy, at 1.5% of GDP. Growth has already slowed sharply from over 3% in late 2014 back towards trend. Autumn next year is also the most likely time for an in-out EU referendum. As we have recently written, the outcome appears to be becoming increasingly close, with an 'out' vote carrying huge political and economic consequences.